

**STATEMENT OF  
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**ADMINISTRATOR  
OF  
GENERAL SERVICES**

**BEFORE THE**

**COMMITTEE ON GOVERNMENT REFORM**

**U.S. HOUSE OF REPRESENTATIVES**

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Statement of  
Administrator Stephen Perry  
Before the House Committee on Government Reform  
GSA Oversight Hearing  
October 2, 2003

**Introduction**

Good morning Mr. Chairman and members of the committee, thank you for the opportunity to testify today on the operations of the General Services Administration (GSA). At previous hearings of this Committee, I have discussed the approach we have established to improve our performance at GSA in terms of providing service which yields the “best value,” not only for our federal agency customers, but also for the American taxpayers. This applies to our Public Buildings Service, Federal Supply Service, Federal Technology Service, Office of Governmentwide Policy and all other areas of GSA. GSA has undertaken many steps to improve our operations since our last oversight hearing before your committee. I welcome the opportunity to discuss our agenda with you today. Per your invitation, I will be discussing the changes we have made in regards to our Federal Technology Service (FTS) and Federal Supply Service (FSS) performance improvement project, the recent reports regarding management of FTS operations and the Information Technology (IT) Fund, and our new proposed replacement strategy for the FTS 2001 telecommunications contract called “Networx.”

**FSS/FTS Initiative to Provide Best Value Solutions in IT Procurements**

The management team at GSA in 2001 chartered the FSS/FTS Initiative to Provide Best Value Solutions in Information Technology (IT) procurements to determine if the current structures and services of the Federal Supply Service (FSS) and the Federal Technology Service (FTS) could be enhanced to ensure the best value to our customer agencies as well as the American taxpayer. As the

marketplace in which GSA operates has continued to change, the offerings we provide must adapt to remain relevant and competitive. In responding to the market forces affecting IT, concern was expressed that the GSA contracts may have had unnecessary overlaps. It was noted that these overlaps existed between FTS, as a provider of IT and telecommunications services, and FSS, as a provider of the full spectrum of products and services, including IT, and that this appeared to be creating inefficiencies and non-value adding duplication. Industry partners, not to mention you, Mr. Chairman, communicated to GSA and Congress that these overlaps were burdensome and expensive because they required them to compete multiple times for similar opportunities. The FSS/FTS Initiative to Provide Best Value Solutions in IT Procurements took these issues as a starting point and worked to discover opportunities for improvement.

### **Changes to FSS and FTS**

In December 2002, the Commissioners of FSS and FTS and I announced that GSA would combine and realign some functions of FSS and FTS to improve and expand procurement services for customer agencies. GSA's Office of Performance Improvement provided oversight to this FTS/FSS initiative in order to assure that the process of completing the study and implementing any necessary changes would be achieved expeditiously. The significant changes included consolidating responsibility for all IT contracting vehicles in FSS, consolidating responsibility for all marketing functions in FSS, responding to customer agency requirements by having FTS begin to provide assistance in the acquisition of professional services, and establishing a Contract Vehicle Review Board (CVRB) to review and rationalize current and future IT contract vehicles. We are pleased that all of these actions have been implemented.

### **Consolidation of IT contracting vehicles in FSS**

Responsibility for the development and management of virtually all contracting vehicles has been consolidated in FSS. FTS retains contracting responsibility for certain single agency IT contracts and also for Network Services contracts. Additionally, we have reduced the number of Government-Wide Acquisition Contract (GWAC) Acquisition Centers from five to three, redeploying affected staff to needed contract management activities in FSS and FTS. The consolidation of contracting vehicles of FTS and FSS will eliminate non-value adding duplication and enable personnel to focus on previously unmet customer requirements, including assisted acquisition of professional services. Also, this consolidation will minimize confusion of customer agencies and industry partners. These changes reflect our continuing efforts to improve government procurement and also support the President's Management Agenda.

### **Consolidation of Marketing functions in FSS**

FSS now has primary responsibility for market research and marketing in support of the business lines in both Services. This includes the FTS assisted acquisition services and network services, as well as all the products and services procured by FSS. The functions of the FTS Office of Strategic Planning and Business Development were transferred to the FSS Office of Marketing in January 2003. Eighteen FTS associates were transferred to the FSS Office of Marketing. Since the transfer, the two Services have been working together to complete coordinated marketing plans and messages. We are also pleased to report that GSA has combined the separate Customer Relationship Management (CRM) systems being developed independently in FTS and FSS into one system. This will allow us to share information across the GSA enterprise while reducing our overall costs of system development and deployment.

## **Expansion of FTS Assisted Service Offerings**

As part of the FTS/FSS initiative, it was determined that customer agencies have an increased need for assistance in procurement of professional services. In response, GSA created the Office of Professional Services within FTS to provide assistance in the acquisition of professional services. FTS has been providing assisted services including acquisition expertise and management, project management and financial management to help agencies acquire IT Solutions and Network Services for many years. FTS helps agency customers specify requirements, write Statements of Work, solicit and evaluate proposals, manage the task, and manage the financial transactions. Since the realignment, FTS is now providing these services to agencies to help them acquire non-IT services from the following Multiple Award Schedules (MAS): Management, Organization, and Business Improvement Services (MOBIS); Logistics Worldwide (LOGWORLD); and Professional Engineering Services (PES). GSA will review and, as appropriate, expand this type of assistance to Federal agencies on other federal supply schedules in the future.

## **Contract Vehicle Review Board (CVRB)**

In conjunction with the FSS/FTS functional realignment announced in December, 2002, GSA established a Contract Vehicle Review Board (CVRB) to apply a rigorous process that continues to assess whether existing GSA IT contracting vehicles should continue or be eliminated; and whether new GSA IT contracting vehicles should be added to meet the needs of customer agencies.

The CVRB was established to ensure that GSA's IT contract vehicles are appropriately coordinated and rationalized, now and in the future. The CVRB, which began work in February 2003, is chaired by FSS, has three members from FSS, three members from FTS, and one from the Office of Governmentwide Policy (OGP).

To date, the CVRB has found areas of overlap and duplication within GSA's Government-wide Acquisition Contract vehicles and between the GWAC's and our Multiple Award Schedules program. We will reduce these overlaps and re-deploy certain resources to offer improved services and better manage existing contracts, thereby ensuring best value to our customers and to the American taxpayer.

The necessary actions, which we announced to the affected industry partners in the past week, have been designed in a way that we believe will meet customer agency needs, industry needs and GSA needs. The three largest GWAC's are Millennia, Millennia Lite, and Answer. Of these, Millennia and Answer have significant overlaps, while Millennia Lite, as a vehicle for mid-sized companies, fills a different market niche. GSA is developing a replacement strategy to combine the best of the Millennia and Answer GWAC's into a single new contract vehicle. This will permit the continuation of current tasks under these contracts while allowing us time for careful planning of the replacement contract. While we anticipate that Millennia Lite will continue for the next several years, a full business case will be prepared prior to initiating a re-competition of that contract.

GSA has numerous smaller GWAC contracts. Of these, FAST, which is an 8(a) contracting vehicle, and HUBZone are highly valuable socio-economic contract vehicles. Because they foster small business opportunities, help agencies meet socio-economic goals, and complement the services provided on the larger GWAC's and the Multiple Award schedules, both the FAST and HUBZONE contracts will be retained. In fact, GSA is proceeding on the re-competition of the FAST program. GSA plans to examine the need to establish other socio-economic contracting vehicles as well, such as a contract for service-disabled veteran owned businesses.

Our reviews have determined that several of the GWAC'S, including Disaster Recovery, Reverse Auctions, Seat Management, and Virtual Data Centers duplicate offerings found elsewhere in the GWAC's or the Multiple Award Schedules program. All will be allowed to expire and none will be re-competed. To expedite this transition, no orders under these vehicles will be allowed to extend beyond the end of the contract period.

SmartCard and ACES were also found to duplicate offerings elsewhere in the GWAC's or Schedules program. However, their elimination could potentially affect efforts to implement Government-wide standards. We intend to conduct a further review before a final decision is made on these contracts.

We believe the aforementioned actions meet the objectives of our review process. To avoid duplication in the future, we have taken several additional steps. All IT contracts between \$3,000,000 and \$20,000,000 will be reviewed and approved by the Assistant Commissioners for Acquisition for both FSS and FTS before a solicitation is issued. All IT contracts above \$20,000,000 will be reviewed by the Contract Vehicle Review Board prior to any decision to solicit a new contract.

GSA's IT Multiple Award Schedules and GWAC contracts will continue to offer the entire range of IT solutions for projects of all sizes. However, these changes will reduce overlap and duplication. They allow GSA to re-deploy resources to improve contract management, to improve customer satisfaction, and to reduce GSA and vendor costs while providing for best value to the taxpayers. We believe GSA customers will now have a more integrated, one-stop shopping experience when buying IT and other professional services. The Contract Review Board will remain in place at GSA, and continuously review all new proposed major contracts to ensure there are no more overlaps in GSA contracting vehicles.

## **Management of FTS Operations and the IT Fund**

Mr. Chairman, I would like to shift your attention to another important subject of great concern both to the Committee and to GSA. I plan to discuss FTS use of the Information Technology (IT) Fund in the context of recent Inspector General (IG) audits of our Client Support Centers (CSCs). I will describe the management and organizational structure as well as the pertinent fundamentals regarding the IT Fund, and then address more specifics regarding the audits.

### **Background**

The Information Technology (IT) Solutions business line within FTS is a fully cost-reimbursable solutions provider to the Federal IT community. The core business of IT Solutions is the reselling of private sector IT solutions obtained through the award and administration of contracts. The IT Solutions business line is organized into three national CSCs located in Washington, DC, and eleven regional CSCs providing support to the Federal IT community worldwide.

The national CSCs report directly to FTS central office management. The regional CSCs report directly to the GSA regional management with a “dotted line” relationship to FTS central office management. FTS central office management provides policy, guidance and oversight to all the regional FTS organizations. The respective Regional Administrators have day-to-day operational authority. In order to achieve desired results, the FTS central office and the regions must manage operations in a cooperative partnership.

FTS enters into formal reimbursable agreements with its clients to provide IT products and services. FTS uses the Information Technology Fund (IT Fund), which is a revolving fund "available for expenses . . . to efficiently provide information technology resources to federal agencies", authorized under 40 U.S.C. 322 (c)(1). As a revolving fund, the IT Fund provides the financial mechanism



through which IT and telecommunication costs are paid to vendors and then billed to and reimbursed by Federal agencies. The IT Fund finances authorized activities such as salaries and benefits as well as the procurement of supplies and services requested by the agency. Once a requesting agency enters into a binding reimbursable agreement with FTS, the requesting agency may record a valid obligation in its accounting system. In order for the obligation by the requesting agency to be valid:

- (1) The funds must be available for obligation by the requesting agency,
- (2) GSA and the requesting agency must execute a binding reimbursable agreement, and
- (3) The agency must have a current specific need (*bona fide*) for the goods or services to be provided by FTS at the time the agency enters into the reimbursable agreement.

### **Specifics Regarding Audits**

Part of our annual internal control process is to request the GSA Inspector General to audit units on a regular basis. GSA management recommends areas for review, and the IG includes these areas in the IG's annual audit plan, as appropriate.

FTS central office management, requested the GSA Inspector General to include in its Annual Audit Plan the audit of all FTS Client Support Centers. Before these audits began, the Region 10 Regional Administrator discovered contracting irregularities, which caused him to request the GSA Inspector General to begin the audit of the CSC in that Region. A preliminary GSA IG Audit Alert was issued in March 2003 that identified IT contracting irregularities in Region 10's IT Solutions Office in Bremerton, WA. I understand that alert has been brought to your attention and I will address the findings here today. Currently the Inspector General is conducting an audit review of FTS Client Support Centers in Regions 4, 6, 9 and 10, and all of the other CSCs will be audited in future years.

**Region 10, Bremerton Office (GSA IG Audit Alert Report – Issued March 2003)**

On May 9, 2002, FTS central office leadership conducted an entrance conference with the Office of the Inspector General to start a review of procurements in the Client Service Centers across FTS. In June of 2002, a contracting officer brought some contracting problems to the attention of the Region 10 regional administrator (RA). The RA felt the issues called for a complete and comprehensive review and asked for the IG's assistance. Because of the concerns expressed by Region 10 management about the Bremerton office, the IG made the decision to initiate the audit plan beginning with Region 10. In addition, the IG's audit plan also included an audit of FTS CSC activities in Regions 6 and 4 due to the high volume of contracting activities in these regions. This review was conducted from November 2002 to February 2003. It examined task orders covering September 2000 – September 2002. The result of the review led to the issuance of an Audit Alert in March 2003, the IG's alert indicated that the Bremerton field office:

- ◆ Improperly used the Information Technology Fund for non-IT purposes
- ◆ Improperly used 8(a) contracting vehicles, including the splitting of procurements and misuse of subcontracting.

Region 10 and FTS central office officials have worked together to undertake corrective actions to resolve problems and prevent their recurrence. Thus far, Region 10 and FTS central office have:

- Reassigned all of the associates in the Bremerton office to the Regional Office in Auburn, WA, in May 2003 to enable strengthened supervisory oversight.
- Implemented new and refresher training courses in contracting and appropriations law.

- Restructured the Region 10 FTS organization into teams in which Network Services, IT Solutions, and acquisition associates work together to assure quality task order procedures.
- Assigned a Chief of Acquisition responsible for oversight of acquisitions and for developing internal procedures and/or statements of objectives for FTS work to be performed in Region 10.

Management, assisted by the IG, is gathering detailed information regarding actions by individual associates. Using this information, management will reach determinations regarding appropriate disciplinary or other personnel actions. Similar corrective actions are being developed for regions 4 and 6.

## **FTS ACTIONS TO IMPROVE ACQUISITION PRACTICES**

FTS has begun to implement a series of actions and initiatives designed to improve acquisition quality and integrity across the Service:

1. **Reiteration of Existing FTS Policies.** On September 23, 2003, the FTS Commissioner issued a memorandum that reiterated applicable regulations and policies issued by and/or pertaining to FTS over the past few years. This memorandum strongly admonishes all FTS activities to scrupulously adhere to the letter and spirit of all pertinent guidance, including the Federal Acquisition Regulation (FAR) and the December 6, 2001 memorandum to all IT Solutions associates regarding “*Growing the Business Responsibly*”.
2. **Strengthening of FTS Internal Controls.** As part of the FY 2004 financial audit, the GSA’s Chief Financial Officer will ensure that the financial auditors review the FTS control environment and risk assessment, and that proper control activities are in place. In addition, to

ensure a sound system of internal controls, program performance will be routinely analyzed, assessed, and evaluated by management. Taken together, this is intended to provide reasonable assurance of a fully effective and efficient internal control program within FTS.

3. **Implementation of Additional Legal Review Requirements.** FTS has implemented additional legal review requirements to ensure sound legal regulatory and contractual principles. GSA's Office of General Counsel will review all FTS new contract awards over five million dollars; all FTS actions that will result in the award of BPAs against the FSS Multiple Award Schedules (MAS) regardless of dollar value; all FTS actions that will result in the issuance of a task/delivery order that contains leasing provisions, regardless of dollar value; and all FTS actions that will result in the issuance of a task/delivery order under existing vehicles (i.e., GWACS, MAIDIQs, FSS MAS) in excess of five million dollars. In addition to the matters set forth above, GSA associates are encouraged to seek legal advice from assigned counsel on any matter that they deem appropriate. GSA Associates are also encouraged to keep legal counsel involved in the progress of major acquisition matters and to seek advice on such issues as whether a procurement is appropriate for an SBA 8(a) procurement and whether the procurement constitutes information technology or non-information technology.
4. **Development of Acquisition Improvement Plans.** FTS is developing a series of detailed acquisition improvement plans for each regional and national CSC. Each improvement plan will specify required actions, methods, and results in such areas as the oversight of pre-award and post-award activities, and the conduct of acquisition activities by associates with appropriate levels of experience and expertise.

5. **Assessment of Performance Goals and Measures.** FTS IT Solutions is strengthening its long-term strategic goals, annual performance goals, and performance measures to ensure the linkage of FTS measures to GSA vision and goals. In addition, the intent is to ensure a balanced approach by linking performance with customer satisfaction, associate satisfaction and quantity and quality business results.

In the next 2 months, the FTS Commissioner will solicit an independent review of contract and management operations to evaluate compliance with procurement laws, regulations, and internal GSA policies and procedures. The review will identify appropriate actions to ensure that FTS associates adhere to sound procurement practices and procedures while serving the diverse needs of Government agency clients. The review will provide recommendations concerning flow of communication, effectiveness of existing structures, workflow, training, reference materials, and any policy and/or procedural changes that need to be made to mitigate shortcomings or defects.

Mr. Chairman, let me assure you that we take the audit report findings very seriously. This failure to follow proper procedures is totally inconsistent with both the President's management agenda and with the values and goals of the General Services Administration. Since its inception in 1996, FTS has facilitated the procurement process and streamlined IT acquisition for Federal customers. This program has been extremely valuable to our agency customers and has overwhelmingly provided best value for the taxpayer. It is now clear from these preliminary findings, however, that in some instances, the safeguards and oversight were not adequate to ensure the integrity of the program and its services. We believe the action GSA has taken, is taking, and will be taking will maintain the integrity of these programs.

The FTS program is a critical part of our mission to deliver fast, quality services to the agencies that are serving our citizens and our Nation. We are committed to correcting the problems we found and are working to ensure they are not repeated. To that end we have worked with the FTS Commissioner, her management team and members of the GSA Executive Committee to implement corrective actions. Let me reiterate, GSA is addressing both the lack of screening and supervisory oversight of FTS contracting operations at the regional and national level, and the intentional failure to comply with policies and procedures to gain customer satisfaction to generate new business.

We have already instituted a number of policy and operational changes in response to the audit report's recommendations. We are currently developing improved performance measures and internal controls to help prevent future violations of procurement law, regulation, or policy. We will continue to make every effort to ensure that FTS associates adhere to sound procurement practices and receive training to comply with current procurement policies and procedures. The audit indicates there were some cases where some associates deliberately did not fulfill their responsibilities. Those cases are being reviewed and if they prove to be true then appropriate action will be taken.

### **Telecommunications Services (Networx)**

Now, Mr. Chairman, I'd like to discuss another topic of interest to this committee, namely our replacement strategy for our telecommunications contract. As you know, FTS is responsible for ensuring that Federal agencies have access to affordable telecommunication services and solutions which meet agency mission requirements. FTS has a tradition of meeting this responsibility by working closely with this committee, with our user agencies through the Interagency Management

Council (IMC), and with the entire community of stakeholders to leverage the Federal community's buying power. We are grateful today to have the opportunity to advise you of plans to replace several of our contracts which are expiring, including FTS2001, and to seek your counsel and support as we develop our acquisition strategy and begin a dialogue with industry on this large and important undertaking.

Throughout the tumultuous period that has characterized telecommunications deregulation, and despite the difficult industry environment we face today, our acquisition strategies have served us well. FTS2001 is a resounding success, providing state of the art services at unparalleled low prices, stability, flexibility, and competitive access to new technologies. The program achieved its primary objective, as established by this committee, of ensuring the best service and price for the government while maximizing competition in acquiring those services. It reaffirmed the benefits of coordinating across the Government to achieve economies of scale in the acquisition of services. And by working together, with the agencies and your committee, we were able to successfully procure a large volume of telecommunications services at significantly reduced prices. Although the FTS2001 contracts are not mandatory, agencies have remained with FTS because we have managed the program to their satisfaction and made continuous improvements during the life of the contracts. This includes awarding over 150 modifications to the MCI and Sprint contracts that benefit all agency users, not just the agencies for which the modifications were initiated. This also includes implementation of the unique crossover provisions of the FTS2001/MAA program whereby AT&T and Qwest were able to offer FTS2001 services by crossing over from the MAA program. As you recall, this innovative characteristic resulted from the extensive collaboration between this committee, industry and our customer agencies in the development of our earlier strategy. Additionally, FTS has gained invaluable

experience in managing the transition process which is a key element of any telecommunications acquisition.

Mr. Chairman, as FTS2001 and related FTS acquisition programs begin to approach contract expiration, we must look ahead to their replacement. Accordingly, we have initiated plans for a follow-on acquisition program based on the successes of current programs and lessons learned from the past. I would now like to turn the Committee's attention to our initial plans for the successor program we are developing.

First of all, FTS has selected "FTS Networx" (with an "X") as the name for our follow-on program. We have chosen this name because it conveys our belief that the future of telecommunications is increasingly about networking. While Networx must be designed, first and foremost, to support the continuity of our customers' communications infrastructure, it will also look to the future in providing new capabilities enabled by the networks of tomorrow. The infrastructure for these newly emerging networks is being deployed as we speak. These so-called "converged" networks will allow delivery of all types of services – voice, data, and video – over a single unified infrastructure. We will be able to access information using mobile, fast, and secure communications. FTS intends to deliver these capabilities to our agency customers as industry brings them to market. Networx will provide the service contracts vital to supporting the complex missions of a twenty-first century American Government.

Building on the experience we gained by competing the FTS2001 contract, we have established four primary goals for Networx. First, we must assure continuity of current telecommunication services and solutions for our current customers. FTS2001 provides telecommunications services to tens of thousands of locations and Government users depend on FTS2001 for uninterrupted service to perform



their missions. Second, we must continue to provide best value for all services and solutions by attracting the most innovative and highest quality services from industry at the best possible prices. With your guidance and support, FTS2001 established a benchmark for innovative acquisition that successfully leveraged competition and provided a means to engage the predominant industry players during the life of the program. FTS intends for the Networx program to do no less in creating a competitive framework that will achieve comparable success within the current environment. Third, we must respond to a changing marketplace by providing access to a broader range of services and service providers than on previous FTS telecommunications contracts. We have seen the benefits of the FTS2001/Metropolitan Area Acquisition strategy as defined in the Federal Telecommunications Statement of Principles. We must similarly develop a process whereby the benefits of continuous competition and ongoing technology infusion are firmly established as elements of the overall acquisition strategy. Finally, we seek to offer expanded opportunities for small businesses. We believe it will be possible for FTS to provide opportunities for small businesses to compete as primes within the structure of the Networx strategy.

Focusing on these goals and working in collaboration with our customers through the IMC and the CIO Council, we have developed an initial acquisition strategy for the Networx program. We are ready to share that approach publicly and to solicit input from all Networx stakeholders. Our schedule includes the release of a Request for Information that will provide us with needed industry feedback as we calibrate our approach with industry's ability to respond.

As I mentioned previously, the Networx program is designed to build on our collective successes from the FTS2001 and the MAA programs. As technology evolves and the distinction between local and long distance services continues to blur, the Networx program will provide all of the services on the FTS2001 contracts and many of the services now provided on the MAA contracts. It will also include

wireless and satellite services. Let me briefly summarize the highlights of the Networx program strategy.

FTS plans to accomplish these program goals through the use of two parallel acquisitions, which we call Networx Universal and Networx Select. The acquisitions will be conducted nine months apart, with both awarded before expiration of FTS2001 contracts in December of 2006 and January of 2007.

Networx Universal will be awarded to providers who can offer a complete range of domestic and international services. Service must be provided to all government locations currently served under FTS 2001, as well as all commercial locations served by the offeror. This acquisition is intended to ensure that Government agencies have the ability to maintain service to all locations currently served and provide uninterrupted continuity for mission essential activities. The competition will be structured such that the initial opportunity to win a sizable amount of business will create incentives for industry to offer their most competitive prices. The success of FTS2001 is our model for this acquisition.

The second acquisition will be called "Networx Select." Networx Select will establish more focused service offerings with more flexible coverage requirements. While Networx Universal will require a full and comprehensive set of global offerings, Networx Select will allow providers to propose a specific set of services and geographic coverage based on their core competencies and competitive advantages. Follow-on competition will be available not only from local service providers, but potentially from data providers whose services or geographic coverage is more focused, and other

niche providers whose portfolios of managed services and network related offerings will provide long term competition for the larger more “universal” providers.

Based on expressed customer interest and evolving industry plans, we are actively seeking blended local and long distance offerings through both Networx Universal and Networx Select.

Let me hasten to add that we have closely coordinated this approach with our agency customers and have received their active support in developing the strategy and technical requirements. From this point forward, we seek comments from our broader stakeholder community on all aspects of our strategy. We encourage comments and perspectives that will further shape and refine the process we have initiated. We are pleased to bring to you, Mr. Chairman, and the other Members of this Committee, a strategy that can serve as the basis for our initial and ongoing discussions. We intend to build on our past accomplishments, incorporate lessons we have learned, and ultimately harness the innovation and entrepreneurial spirit of American industry to capture the networking solutions required to meet the requirements of our agency customers and the American People.

Thank you for the opportunity to testify before your committee today, and I look forward to answering any questions you may have.